

All told, the intersection of law and science has not been a pretty one. There are two separate problems, which, warn the editors, together create chaos: first, “much confusion, error, and ambiguity surrounds risk research, at least when searching for small risks”; second, we have “a legal system that sometimes raises more questions than it settles.”

Unfortunately, there is no way to avoid some problems of this nature. Science is uncertain, experts make mistakes, the courts are open to everyone, lawyers have an incentive to file speculative cases, and juries are usually authorized to decide the facts of legal cases. Still, the process could be improved. Write the volume’s editors:

Probably the best that legal reformers can do is to suggest ways to help improve the quality of the scientific evidence that is presented in court. The goal is not to raise standards of proof to levels so high that no plaintiff could hope to win, but rather to ensure that the scientific testimony that is presented to juries is as reliable as possible. Expert testimony needs to be *verifiable*, and, where possible, *consistent with a consensus of scientific opinion*. It needs to address at least three issues: the existence of a hazard, the plaintiff’s exposure, and the risks associated with the exposure. In legal terms, it needs to be more probative than prejudicial.

They go on to recommend eight specific changes, which deserve to be taken seriously by judges and legislators alike. For even our wealthy society, they worry, “phantom risk remains a diversion that is too expensive.”

Phantom Risk is an important book—an indispensable reference for anyone desiring to confront the environmental apocalypics who seem dedicated to litigating and regulating our society into ruin. Rather than offering political polemics, the book’s editors and authors let their abundant evidence speak for itself. Which is precisely why *Phantom Risk* presents a challenge that the

environmental lobby will find difficult to ignore. □

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Bankers and Regulators

with an introduction by Hans F. Sennholz

The Foundation for Economic Education, 1993
• 176 pages • \$14.95 paperback

Reviewed by Robert Batemarco

“Money is different,” we are told by practically every member of the economics profession, including many who stand tall against government intrusion in every other sector of the economy. This difference, in their eyes, legitimizes government provision and control of money as well as its regulation of those private institutions which create and lend money. The contributors to *Bankers and Regulators*, the eighth volume in the *Freeman Classics* series, however, find that line of reasoning unconvincing. So will the reader of this book, when faced with its revelations of not only the adverse consequences of those regulations but also of successfully applied alternatives to government regulation.

The book consists of a lengthy introduction and seventeen articles, all of which, at one time or another, appeared in *The Freeman*. While one (a William Cullen Bryant piece critiquing usury laws) was written in 1836, most are of recent vintage, with over three quarters of them first published within the last ten years. The age of the pieces in this collection is of little consequence, as they are based on principles which remain as valid today as when they were first written.

Bankers and Regulators is divided into three sections, which roughly correspond to theory, history, and policy prescriptions.

By no means are these divisions airtight, however, as many selections provide the reader with all three. Hans Sennholz's article on the bailout of the savings and loan industry is a prime example. The longest piece in the collection, it is an extended narrative for which his mastery of economic theory furnishes a coherent explanation. How cartels inevitably break down, the distortions created by inflation, the moral hazard entailed by government "insurance" which defies every principle of insurance, and the ever-destructive impact of price controls (in this case on interest rates) are all clearly illustrated by the events described here.

Several themes crop up over and over again throughout this slim volume. Some, such as the destabilizing effect of restrictions on branch banking, are now commonly acknowledged in the mainstream literature. Where *Bankers and Regulators* stands out, however, is in its contributors' willingness to tread where no money and banking text would dare. Where else could you find a discussion of the impact of banking regulation on the distribution of income (Sennholz's previously cited piece on the S&Ls and E.C. Pasour's discussion of the federal farm credit system) or evidence that implicates the Fed in the deterioration of the financial condition of U.S. banks since its inception (Richard M. Salsman's analysis of the "too-big-to-fail" doctrine)? You won't learn that such universally accepted features of our banking system as deposit

insurance, reserve requirements, the existence of a lender of last resort, and central banking itself, are not only unnecessary on theoretical grounds, but have been absent from other banking systems with no ill effects (Donald R. Wells' comparison of U.S. and Canadian systems) in the pages of *Business Week*.

In addition to the topics mentioned above, the international monetary system and credit crisis (Ken S. Ewert, Christopher Culp), fractional reserve banking (Morris Markowitz), abolition of the Fed (Ernie Ross, Elgin Groseclose), deposit insurance (Jeffrey Rogers Hummel, Kurt Schuler), free banking (Lawrence H. White, Donald R. Wells, and L.S. Scruggs), the gold standard (Joe Cobb), and electronic banking (Elizabeth Kolar) each rate at least one chapter of this collection. The volume is strong on history, making it suitable as a supplementary text in money and banking courses, texts for which almost never contain enough historical material for my taste. It is also infused with FEE's principled position that free markets are desirable for both practical and moral reasons. The reader of this volume will be well equipped to defend the position that money is no exception to the general case for free markets. □

In addition to editing the book review section of the Freeman, Robert Batemarco is a marketing manager for financial analysis at J. Crew in New York City and teaches economics at Marymount College in Tarrytown, New York.

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